SGN Independent Stakeholder Group

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To: RIIO3@ofgem.gov.uk

RIIO3 Call for Evidence on GDN Business Plans

Dear Ofgem,

SGN's Independent Stakeholder Group has been set up to provide challenge and support to SGN in the development of its GD3 Business Plan and to hold SGN to account for delivery of its GD2 Plan. The membership of the Group and our annual reports are available on the ISG section of SGN's website. This response reflects the views of the ISG as a whole but may not necessarily represent the views of all individual ISG members on all points.

We are pleased that Ofgem has recognised the value that Independent Stakeholder Groups (ISGs) can play in the RIIO process and firmly believe that our involvement has led to a much stronger Business Plan than would otherwise have been the case.

Based on our engagement through this process, which was itself underpinned by our tracking of all of SGN's engagement, we have set out below a summary of our views in terms of:

- the overall process and quality of the engagement;
- the context for the Plan;
- elements of the plan we particularly support and hope that Ofgem will fund;
- our views on overall value for money and affordability;
- areas where we would have liked to see more ambition; and, finally
- our overall assessment.

We then provide feedback on a chapter-by-chapter basis, including on the supporting annexes where appropriate.

Overall process and quality of the engagement

Building on the Chair's statement provided alongside the Business Plan, we can provide assurance to Ofgem that:

- the Plan is underpinned by robust consumer and stakeholder engagement and insight;
- has been subject to challenge from an early stage; and that
- the Board and Exec have engaged on our challenges and have sought to address them.

We have been closely involved throughout in SGN's engagement with consumers and stakeholders. We welcomed the early start that they made on this – ahead of Ofgem confirming the arrangements for the current price control through their Future Systems and Network Regulation (FSNR) work. This allowed us to contribute fully to the early planning and we are strongly supportive of the deliberative approach SGN have taken which we see as sector-leading.

ISG members have observed over 12 sessions of the consumer research covering the whole process and each of the main demographic groups (future users, SMEs, fuel poor, general domestic). There has also been at least one ISG member at all the main stakeholder events. We have been invited to

the debrief sessions with the agency for the consumer research, have featured engagement as a standing agenda item at our meetings and the ISG leads met the SGN team on a weekly basis through much of the last year. We have open access through a SharePoint site to all the research reports and also to SGN's triangulated Insight Bank. We are pleased that SGN has adopted our suggestion to publish its research reports making them publicly available as a resource for others.

Based on this close scrutiny of SGN's engagement we can say with confidence that the consumer research was carried out to a high standard and the materials presented were fair and balanced. By using deliberative techniques SGN gained much richer insights than adopting a more conventional quantitative approach. It also felt more appropriate given the complexity of the issues being explored. We are pleased that SGN has committed to maintaining a consumer panel through GD3 to allow it to explore new issues as they arise.

On stakeholder engagement SGN undertook a good mix of specialist group and wider engagement which again were professionally carried out, although there were a few stakeholder categories where we would have liked them to do more as noted below. They have also continued to engage through webinars following submission of their Business Plan to help stakeholders understand their proposals.

In terms of the substance of the Business Plan, we have been fully engaged in its development from an early stage with discussion of some of the more strategic questions starting in 2023. We have been meeting as a group on a monthly basis throughout 2024 (and bi-monthly before that). We have also instigated "buddying" arrangements between ISG members and SGN staff to enable particular areas to be explored in more depth. We are grateful to SGN for their time and the openness with which they have engaged.

The compressed timetable for GD3 and the absence of a requirement to provide a full draft Plan in July (as had been the case in GD2) meant that there were some elements of the Plan where we did not see draft materials until very late in the day, in particular on the costs. Indeed, the Plan continued to be refined after the final draft which we saw. We did not have a chance to look at any EJPs for individual cost elements. Overall, however, we are happy that we had adequate opportunity to input and that our comments were fully considered by the SGN team.

In terms of formal feedback, we produced an Early Challenge Log at the end of 2023 which set out the issues that we were keen to see SGN address in its Plan, including on its approach to engagement. We subsequently provided an assessment of performance against those early challenges in April and again in September. We provided a written set of "Reflections" on the first draft of the Plan in late September which we updated in October based on the second version of the Plan, with a summary provided to the Board in November. We also provided the SGN team with more detailed comments on the successive drafts and on individual annexes.

As ISG Chair I formally report through the SESG[1] Board Committee and have met with them four times in the last year and have shared with them all the formal feedback we have provided. I also joined the main Board meetings in November 2023, May and September 2024. Mark Wild as CEO joined the ISG meetings on a regular basis and Simon Kilonback, his successor, joined our December meeting. There has been strong interest in the views of the ISG as the Plan has developed and, I believe, a genuine commitment to addressing the points we have raised.

[1] Stakeholder, Environment, Social and Governance

The context for the Plan

One of the early challenges we raised with SGN was around their GB level net zero narrative. We agreed that on current trajectories the Future Energy Scenarios (FES 2024) net zero pathways look unlikely to be met and endorsed the need to keep the network safe while there is still gas flowing. However, we wanted to see SGN demonstrating more clearly a recognition of the need to meet the legally binding net zero goals of 2045 in Scotland and 2050 in England. We are pleased that the narrative is now much clearer, stressing the role that green gas can play in meeting these goals (rather than simply seeing it as a way to keep the gas networks running) and acknowledging the wider context. This now comes across clearly in the CEO Introduction and the Exec Summary.

That said, perhaps inevitably, the Business Plan still does not really engage with the question of how the longer-term scaling back of the gas network might impact SGN's approach to investment in GD3 and beyond. For example, at what point should the emphasis shift from replacement of assets to more short-term repairs? We had also challenged SGN to develop a more geographically granular view of their network and where alternative gases were more (or less) likely to be a solution. While we know some work has been done on this, it has not influenced the levels of network investment put forward in the Plan.

Having said that, SGN cannot really have been expected to do more given the lack of policy direction from Government or Ofgem. This is not just about the anticipated 2026 "hydrogen for heat" decision but also gas connections in new builds, the 2035 date for no new gas boilers, district heat zoning, the potential for hydrogen blending and the long-term policy framework for biomethane. Some (but not all) these decisions are devolved in Scotland adding to the complexity. In its SSMD decision Ofgem put off taking a decision on the payback period the companies should be using for assessing investments, with the result that they have fallen back on using a 16-year payback (which is the same as used in GD2 despite the net zero deadline being five years closer). While Ofgem in turn is dependent on increased clarity from DESNZ, the payback to be used in CBAs is a crucial piece of guidance that would have helped in shaping the Plans.

We share SGN's view that the FES Holistic Transformation pathway (which Ofgem had said should be the basis for the Plans), looks very unlikely to be met, at least in the near term, given the current emphasis at a policy level on a consumer led transition and current limited take-up of heat pumps. We are also very aware of how much the FES scenarios have varied from year to year and how their near-term heat pump projections have routinely had to be scaled back. However, we consider SGN's assumption that there will be no change to the status quo in terms of disconnections (and their focus on the FES Counterfactual scenario) to understate the likely level of change in the next 5 years. The CCC have highlighted heat pump take-up as an area where the UK is significantly off track for meeting carbon targets and Government will need to respond. That said, without a clear policy direction on heat decarbonisation and without a more realistic central scenario for network planning, it is perhaps inevitable that SGN, with its responsibility for safety and resilience, has taken this cautious view.

While in practice the investment levels proposed for GD3 would probably not look very different under a quite different scenario, it is also clear to us from our work that the absence of a Government plan for a managed transition means the long-term costs will be much higher. We hope that Ofgem will use the evidence from the Business Plans to stress to DESNZ the importance of this longer-term view given the long-lived nature of the assets that the GDNs are looking to install.

There are some SGN projects (on MOBs, discussed below, and innovation around repurposing) that should help shape the future and which we welcome. However, in some cases the precise scope of these potential innovation projects remains unclear and we will want to engage further with SGN as they develop their thinking through GD3.

We will also continue to press SGN to better understand the implications of heat zoning and the roll out of heat networks which we expect to start playing a more substantial role during GD3. DESNZ[2] estimate heat network investment potential of £60 - 80 billion by 2050. On this estimate their future role is significant and something SGN should not ignore.

Elements of the Plan we particularly support

Throughout the process (and reflecting our early challenges) we have been strong advocates of the following elements of the Plan which we hope that Ofgem will support and fund as necessary:

- The focus on increased injection of **biomethane**, in particular in Scotland where, among other things, it offers the opportunity for an innovative approach to the long-standing challenge of the SIUs. In the consumer research we heard strong consumer support for biomethane as a green gas solution that is available now, provides the same heat experience and involves no customer disruption. This has been a focus area for the ISG as a 'no regrets solution' since GD2 and we are pleased with the progress SGN has made which we want to see maintained.

- The focus on enabling **hydrogen blending**, noting the moves at EU level which would allow up to 5% hydrogen through interconnectors (which SGN need to be able to handle). We are concerned that the position in Ofgem's SSMD which suggests no baseline allowances will be given for hydrogen blending could limit funding at just the time it is required. For this reason, we support SGN's request for totex and NIA funding for hydrogen blending activities.

- Maintaining **VCMA allowances** at the current levels given the growing levels of need, the strong customer and stakeholder support for this as a priority area, and noting SGN's strong partnership network which allows them to deliver efficient and effective services. As we set out in our response to the SSMC, we believe it would be wrong to revert to the original VCMA funding level, having closed off the FPNES, in that it would reduce the total support to vulnerable customers at a time when that support remains vital, with fuel poverty numbers rising (as highlighted in the latest DESNZ fuel poverty consultation[3]). We support the upweighting of support towards Scotland given the particular challenges in terms of climate and housing resulting in markedly higher levels of need.

- The focus on **multi-occupancy buildings (MOBs)** where we have pressed SGN to bring together the thinking being done from different perspectives (safety, unplanned interruptions and innovation around decarbonisation). With high costs for maintaining safety in these buildings it must make sense to look in parallel at options for removing gas from the buildings. Given that a quarter of SGN domestic customers live in MOBs (rising to a third in Scotland) this merits attention and we strongly support SGN's proposed innovation project provided that it is done in

[2] https://assets.publishing.service.gov.uk/media/66a23740a3c2a28abb50d711/uk-heat-networks-market-overview.pdf
[3] https://www.gov.uk/government/consultations/review-of-the-fuel-poverty-strategy

close collaboration with DNOs, heat networks, local authorities and policy makers. We are aware that there are questions as to who should lead on optioneering for the decarbonisation of MOBs and we challenged SGN to justify their proposed role. We support the justifications they have given – their current legal obligations, their existing relationships with building owners and their engineering experience – as well as their identification of this as an important area to make progress on quickly. Without their leadership we do not believe it would happen.

- The focus on **methane leakage reduction** which is universally seen by stakeholders and consumers as an "obvious" focus area from a safety, environment and cost perspective. Methane is a short-lived greenhouse gas and hence reducing methane emissions can contribute to reducing the stock of greenhouse gases in the atmosphere, mitigating short term temperature rises and avoiding climate tipping points. We support the requests SGN has made for funding to rollout initiatives in this area. However, we are continuing to press SGN on the timescales for rollout of Advanced Methane Detection and any other early opportunities from DPLA, encouraging a stronger sense of urgency in this area. In light of the recent DESNZ MEAD report – and SGN's desire to grow amount of biomethane connections - we would also like to see SGN working with biomethane plant owners to help ensure methane slip / fugitive emissions are minimised.

- The focus on improving **understanding of I&C customers** which was one of our early challenges. With 40% of gas consumed by I&C it is essential that SGN has a better understanding of the likely future gas requirements of these customers. We welcome the commitment to establish an engagement team and look forward to seeing SGN's insight and understanding developing. We have cautioned them to reflect carefully on the role they are playing in this space and would see an open sharing of evidence with Ofgem, NESO and DESNZ as an opportunity to bring a stronger focus more generally to this neglected aspect of the decarbonisation challenge.

- The commitment to **equality, diversity and inclusion** - and specifically to move to a workforce that better represents the community they serve. We have seen some positive initiatives in this space but believe there is more SGN could do to build on this. Given current recruitment challenges we see a real opportunity if the recruitment base can be further widened.

- The commitment to **employee safety** and the new focus on "zero harm". While safety has been a long-standing priority in SGN we have seen a step change in the emphasis on workforce safety in GD2 and strongly support the efforts to further develop the safety culture in SGN. The move to 12-hour working to mitigate fatigue risks is an important part of this for GD3 and we recognise that this will likely increase costs. However, we have challenged SGN around their staff and union engagement on this topic, as well as taking learning from DNOs and others, looking for ways to minimise the financial impact or secure wider benefits.

As noted above, we have been very alive to the significant uncertainties around heat decarbonisation which are an important backdrop to the Plan. While we have been clear from an early stage that the core investment needed to maintain safety will not vary under different FES scenarios, it is clear that there are elements of the Plan that will, in particular on connections, disconnections and reinforcement costs. We therefore strongly support SGN's proposals for **uncertainty mechanisms** in these areas.

Overall value for money and affordability

In terms of overall value for money of the Plan we have pressed SGN hard on the importance of **affordability** and hence the **efficiency** of their Plan. Concern about the overall bill impact has been our key message in our meetings with the CEO and with the Board / SESG Committee to discuss drafts of the Plan. We believe that SGN have challenged themselves hard in this area and the overall bill impact has come down significantly (and the efficiency assumptions have increased) in the successive versions of the Plan that we have seen. We note that the proposed bill (excluding policy changes) is on a par with GD1 and that GD2 allowances were insufficient to deal with the resource challenges in the South, which we have discussed as part of our ongoing monitoring role for GD2.

However, we are not in a position to judge the overall efficiency of the Plan and are reliant on Ofgem to do this as part of its cost assessment work, taking account of the particular regional challenges that SGN faces.

As a result of the compressed timetable for GD3 we had limited visibility of detailed cost breakdowns in the drafts we saw and did not have a chance to see any sample EJPs / CBAs in the lead up to submission of the Plan. We have looked at a sample since for context but do not see it as our role to comment on the strength of the business case for particular projects or indeed, on the cost assessment methodology issues that SGN raises.

Through our discussions of the various cost drivers impacting the Plan we have noted a few areas where SGN appear to be (perhaps understandably) cautious and where we have raised questions. We discuss these in the chapter-by-chapter section of this response. Again, we are reliant on Ofgem looking across the company Plans to identify whether there is scope for additional savings.

Areas where we would have liked to see more ambition

Finally, there are a few areas where as an ISG we would have liked SGN to be more ambitious and which we will continue to press them on through GD2 and as they develop their delivery plans for GD3. These include:

- **Engagement with DNOs / local authorities**. This was one of our early challenge areas and one that has remained as “red” or “red/amber” throughout. The Business Plan includes a brief reference to preparing for the introduction of Regional Energy System Plans (RESPs) and inputting to local authority plans - but with no substance or vision. While there is still uncertainty around the future RESP arrangements, we would have liked to see more ambition with SGN looking to create a blueprint for how these might work, as some electricity DNOs are starting to do. In our view, SGN should be well placed to be more proactive given that Scotland, with the LHEES statutory requirement, is ahead of the rest of GB. While there are some examples of SGN working with DNOs (on vulnerability for example), on the bigger questions around heat decarbonisation we have seen very little evidence of co-operation. We would like to see Ofgem send a stronger signal about the need for early cross vector working to help support the introduction of RESPs and local area energy plans (LAEPs). This will only become more crucial as the Government looks to increase the role of local authorities and proposed new mayors.

- **Advanced Methane Detection / DPLA**. As noted above we would have liked to see more progress on AMD (use of vehicles to detect leakage) in GD2 and more ambition in the GD3 Plan in terms of timeframes and potential benefits, which we are continuing to engage with them on.

On DPLA we recognise that this is still the subject of the ongoing SIF project, with the ultimate benefits not yet proven, but we are encouraging SGN to identify any other potential early wins such as ways of tracking leakage from above ground installations (AGIs). Ofgem's support in emphasising the need for pace on this (across the industry) would be welcomed.

- **Diversity and inclusion**. As noted above we would have liked to see more substance on this and how in practice SGN will "better reflect the communities it represents". We will continue to monitor their actions in this area to ensure the thinking in the Plan is embedded.

- **Disconnections.** We would have liked to see more focus by SGN on this topic which was the subject of an early challenge from us. As discussed above, we disagree with SGN's assumption that disconnections will stay at current levels and are disappointed at the lack of thought they have given to what sort of customer experience there should be in this area. We note Ofgem's recent Call for Input on Gas Disconnections, which touches on some of the policy questions around how these costs should be recovered and which might help deal with some of our concerns around the opaqueness of the arrangements. However, we are concerned about the apparent disconnect between this review and the GD3 process.

Overall assessment

Overall, we believe this is a strong and well justified Plan that seeks to balance affordability with the need to maintain safety and address wider customer and stakeholder priorities (including Government ambitions for net zero). The limited expenditure on "optional" activity beyond safety reflects that tension. The focus of this additional activity on developing low carbon solutions (in particular those that can impact in the near term) and continued support for vulnerable customers (given the ongoing affordability challenge) is supported by the consumer research.

We have spent significant time as an ISG on SGN's Commitments and in particular challenging whether they reflected consumer and stakeholder feedback and whether they were sufficiently tightly defined for us to be able to effectively hold SGN to account for their delivery. Through this iterative process we believe SGN have come up with a set of Commitments that are clear and reflect the full range of what customers and stakeholders are looking for them to deliver through the Plan. While in many areas they simply represent a continuation of the status quo there are some – in priority areas for customers - that are genuinely ambitious.

Overall, our view is that the Plan has a clear structure and that the link to the consumer and stakeholder priorities comes through as a golden thread. We have fed back to SGN that it was much clearer and easier to read than the GD2 Plan. The supporting documents vary somewhat in quality but all have improved markedly over successive iterations. We hope that our comments and constructive challenge have helped deliver a more robust and accessible document for Ofgem and wider stakeholders.

We hope that Ofgem finds our feedback helpful and would encourage you to look at bringing the GDN ISG chairs together again to discuss our insights on the individual company plans once you have had a chance to review the responses.

Maxine Frerk, Chair SGN Independent Stakeholder Group

SGN GD3 Business Plan: Chapter-by-Chapter Comments

Chapter 1 Introduction to SGN

1.1 Our Networks - We have consistently encouraged SGN to highlight the important differences between its two regions. This Introduction paints a welcome picture of the key features of the two regions which then underpins the Plan.

1.2 Our Performance - We are aware that SGN's performance has slipped in the early part of GD2. We welcome the open way that they have talked to us about this in our monitoring role and also their acknowledgment of these failing and the lessons learned as context for the GD3 Plan.

Chapter 2 – Understanding Customer and Stakeholder Priorities

We were pleased that SGN took the initiative to begin designing their research and engagement programme at a much earlier stage in the process than for GD2. This meant that they were ready to gain customer and stakeholder insights ahead of detailed business planning and therefore in a position for the engagement to authentically influence the Plan. In particular we encouraged them to identify key strategic questions where more insight would be helpful to them in developing their Plan - and which then helped shape their engagement.

The plans for stakeholder engagement sessions were thought through and invitations based on a comprehensive stakeholder mapping exercise and incorporated both general and more targeted topic-specific sessions, delivered both online and in person. The ISG were represented at every event and have subsequently reviewed attendance lists and are satisfied that within reason they represent a good cross section of interests. We discussed with SGN at the time a few instances where we felt that particular events had, for example, a high representation from the supply chain that may have influenced the results of polling. This was then taken into account through the triangulation.

In planning the customer research, the team were very open to input from the ISG and willingly accepted our steer towards a more deliberative approach. In doing so the company were breaking with the past and from the conventions of the industry in a way which should be recognised as innovative and consequential. Input to the process of commissioning a research partner was also welcomed and generally well handled with the ultimate choice of *Jigsaw* proving beneficial. The subsequent phases of informed focus group sessions produced meaningful evidence for the planning process which could be further interrogated with an informed pool of customers and triangulated against data obtained through more conventional survey methodologies.

Our view is that all elements of the research programme were of high quality. ISG members observed every phase of the deliberative programme (some 12 sessions covering all the main demographic groups) and were impressed by the design of sessions and the skilful manner they were conducted. In particular, the prioritisation process, surfacing vulnerability and future low carbon energy as areas of focus for the Business Plan, proved valuable in shaping the overall process.

One of our early challenges was around the engagement of future consumers, a notoriously difficult area. We were ultimately satisfied that the inclusion of 18-24 year olds in the consumer research combined with wider insights SGN gained through other channels such as their schools' programme, covered this aspect.

Throughout the process we repeatedly stressed the importance of connecting engagement insight with the Plan and ensuring the involvement of business owners not just as consumers of

engagement outputs but as active participants in the engagement process, which was done well in some areas. The SGN research team have maintained an 'insight bank' making the findings of all the commissioned research and other specific or outside sources readily available to all concerned in business planning. Encouraged by their ISG 'buddies' they also went further and pro-actively presented and worked with topic leads across the business to ensure all available customer and stakeholder insights were considered. We have encouraged a 'sight-line' between customer and stakeholder views and the ultimate Business Plan proposals, with variances explained transparently.

SGN have been very willing to adopt this practice and the materials now available online explaining the relationship between the evidence of customer views and the development of the Plan is, in our view, very much in line with SGN's own stated value of openness.

This is true also in relation to the one drawback in the delivery of the research programme which centred around a significant increase in prospective bill impact figures from those used at the beginning of the process (to inform participants) to those used in the final stages of approval testing. The ISG had concerns that this potentially diluted or invalidated earlier insights but after an intensive period of adapting materials and maximum transparency with participants, we were satisfied that earlier insights were robust and meaningful. However, this is a key lesson for the future aimed at SGN's finance team, that realistic working figures for sharing with customers need to be available early.

Another concern we had was the quality of engagement with industrial and commercial customers. Albeit relatively small in numbers, in terms of volume of consumption (40%) this segment of stakeholders is key – but hard to engage. SGN accepted our early challenge to review and refresh their work in this area and ultimately commissioned new research to clean and update contact data. We hope to see this utilised and pay dividends over the GD3 period. Their declared intention going forward is to look at segmentation of the I&C user base and to establish a dedicated I&C consumer engagement team to ensure they have an educated insight into large gas consumers future decarbonisation plans and timescales, which we welcome.

Likewise, we are optimistic about the decision to roll forward a citizens' jury style 'super panel' of informed customers (a sub-set of the original *Jigsaw*-administered group) meeting on a regular basis to deep dive topical issues around the Plan and implementation. This should prove a ready mechanism to test business issues in real time keeping customers' views to the fore throughout the Plan cycle.

Chapter 3 Our GD3 outcomes and commitments

As an ISG we have spent significant time discussing SGN's draft Commitments, challenging whether they reflected consumer and stakeholder feedback and whether they were sufficiently tightly defined for us to be able to effectively hold SGN to account for their delivery. Through this iterative process we believe SGN have come up with a set of Commitments that are clear and reflect what customers and stakeholders want. While in many areas they simply represent a continuation of the status quo there are some – in priority areas for customers - that are genuinely ambitious. We comment on the individual commitments in the relevant chapters below.

Chapter 4 High quality service from regulated firms

Overall view and the process of engagement

We have had consistently good engagement with the SGN team on vulnerability and customer service. Our attention has been predominantly on the vulnerability side because of the very high priority it is given by stakeholders and customers, but also because we know customer satisfaction scores are already consistently high.

The governance arrangements for the vulnerability work/VCMA have been strengthened over GD2 and have benefitted greatly from the Vulnerability Steering Group (VSG) expertise. The VSG comprises a group of expert vulnerability stakeholders (together with one member of the ISG) that scrutinise the use being made of VCMA funding, and provide wider advice and challenge, in a way that we believe is unique in the sector. Our assessment is that VSG steers and views on the proposals for GD3 have been taken seriously and helped shape this part of the Plan.

Overall the Vulnerability Strategy is a good document. A lot of it is devoted to explaining the approach developed in GD2 rather than spelling out plans for GD3 - but this is justified as so much of what is being proposed is a considered evolution of what has been learnt to date.

The vulnerability team have been amongst the most attentive to findings of the customer and stakeholder research and very committed themselves to supporting the engagement programme. They reference and build on findings of this and other external research extensively.

The VSG and ISG have had ample opportunity to comment from a very early stage of thinking about GD3, helped by the very robust foundation developed in GD2. No major change of direction is proposed, but the deepening and broadening need for intervention is well recognised and there has been a massive step-change in the sophistication of the approach since the equivalent period in GD1/2. This is well spelled out in the comprehensive Vulnerability Strategy document which includes key points on **data / culture/ impact** discussed below. The proposed division of effort (and funding) between SGN's own staff and via partnerships has been heavily tested in focus groups and wider engagement and is supported by the VSG.

Overall, we are strongly supportive of SGN's proposals in this area – in terms of the level of spend and the split between different activities - and hope that Ofgem will provide the funding requested.

4.1 Commitments

Customer Service

On customer service there are two commitments which are both about maintaining the high levels of service that SGN are already delivering (and continuing the improvement in CSAT scores in the South to get closer to the sector-leading scores in Scotland):

- *We will provide high-quality service so both networks are in the industry top three for customer satisfaction by the end of GD3*
- *We will provide high quality service so both networks are in the industry top three for fewest complaints per 10,000 customers every year in GD3*

On complaint handling we agree with SGN that what matters is to "get it right first time" and to reduce the overall number of complaints. However, we are also aware that targeting complaint numbers can have unintended consequences, for example, in discouraging staff from recording calls

as complaints (defined by Ofgem as any expression of dis-satisfaction). We are not suggesting SGN would do this but will be alive to the risk as we monitor their performance through GD3.

Vulnerability

The Business Plan includes three Commitments on vulnerability, all of which we strongly support:

- *We will help at least 650,000 households in the most vulnerable circumstances in GD3.*

Both the ISG and the VSG have consistently challenged SGN to take a **data** driven and targeted approach to their interventions. They have stepped up to this challenge and more, developing a sophisticated approach to targeting need, and measuring the impact of the projects they deliver or fund. On the face of it this Commitment could seem quite arbitrary (i.e. why 650K?) - but we are satisfied it represents a significant but achievable (subject to VCMA funding levels) contribution to meeting need within SGN's reach and capacity, building on and deploying their existing partnerships and intelligence. Taken with the detailed explanation of their working definition of vulnerability (Strategy document section D), and approach to targeting (para 63), and the clear understanding on different levels of impact (i.e. the pyramid, the fact the 650K does not include campaigns but only instances of real impact, direct or via partnerships), we would strongly endorse this high-level target and associated funding.

- *We will provide training to all frontline employees to help them identify and support vulnerable customers in GD3.*

Both the Business Plan chapter and the Vulnerability Strategy lead off with a very clear theme around organisation **culture** and people - tying the vulnerability work into the mainstream of the company. This is very welcome and this Commitment makes tangible that company-wide approach.

- *We will maximise the Social Return on Investment for every £1 invested through the VCMA programme, while always prioritising the needs of vulnerable customers.*

We have debated SROI in both the VSG and ISG and we recognise it is useful, but only up to a point. By giving a purely financial score to social impact it allows a read-across to other areas of the business, and comparisons with other companies, but misses important dimensions of social value. Focusing purely on SROI (or setting a specific target return) could have had unintended consequences, such as focussing all spend on a niche activity where the benefits are more readily quantified. The Commitment, as written, values the breadth of support that is necessary and balances SROI maximisation with targeting the most vulnerable, which we welcome. The Strategy document describes the considerable efforts that SGN are making to evaluate **impact** (eg with Evaluation Support Scotland), and to develop and share more holistic measures. We see this as a good example of where SGN has played a leading role helping drive industry thinking forward.

4.2 – 4.4: Customer Service and Vulnerability - Other comments

Customer Service - Disconnections – We are disappointed that SGN do not mention any action on customer service around disconnection (beyond flagging technical concerns with Ofgem's proposed survey and ODI). We expect this will become an increasingly important area of customer interaction over GD3 and SGN should therefore give more thought to what is involved in delivering a positive customer experience. As part of their wider commitment to net zero, SGN should actively support households migrating to lower carbon solutions, looking at the end-to-end customer journey.

Affordability - Engagement with both the ISG and more broadly with stakeholders has routinely shown that addressing the affordability of energy is a key issue for SGN to put resource into. While

general affordability of the Plan is covered elsewhere, we note the focus in the Vulnerability Strategy on supporting vulnerable households facing cost of living pressures, something that the ISG welcomes.

Scotland /Southern differentiation- As noted above, the ISG has consistently pressed for a better understanding of the differences between the two SGN 'patches' across the board, but in relation to vulnerability the greater need in colder Scotland and the differences in deprivation has been a key theme. The Vulnerability Strategy (paras 86-106) shows SGN has developed a good understanding of this and we support SGN's proposals to balance the VCMA funding accordingly.

Partnerships – the VSG has encouraged an approach of pro-active co-production with third sector organisations working on the ground in communities and with the expertise to make a difference across both regions. The 'Safe and Warm' network is the very welcome fruition of that. As well as significant social impact across the board it is also, with SGN's facilitation, maturing into a more effective collective - witnessed by us in the bi-annual network meetings and subsequent developments. Over and above that, it is also now a real source of intelligence and insight.

SGN leading collaboration on vulnerability – Based on our observation of what is happening across the sector, SGN has every justification in claiming leadership of efforts to collaborate across GDNs and indeed regionally across other utilities. We commend them for that.

Chapter 5 Secure and resilient supplies

Overview

This is a vital issue for consumers and stakeholders who see safety and reliability as a top priority. Their sense is that performance is currently good and so do not see this as requiring additional investment. However, they are also clear that if further investment is needed to maintain these standards, then that should be undertaken.

As an ISG we have approached our challenges to this part of the Plan through that lens. SGN have been open and shared with us their very early analysis (back in 2023) identifying where in an ideal world they would want to invest to maintain the integrity of their assets. These plans have then been narrowed to take account of affordability and deliverability – albeit with some new requirements emerging to reflect evolving HSE thinking and evidence of increasing repair rates linked to asset deterioration.

In broad terms we understand and support the need for the investment set out in this chapter. In particular we recognise that this investment is needed regardless of the level of gas demand over the GD3 period, to maintain safety and reliability. However, we have not looked at individual EJPs / CBAs to test the detailed case for particular investments. We expect Ofgem to do this as part of its regulatory assessment, including comparing across GDNs.

5.1 Commitments

We will maintain our network so there is no deterioration in its performance or reliability – This reflects customer and stakeholder feedback. We have confirmed that NARMs will be used to measure performance and as such this is essentially BAU.

We will continue to look after the health and safety of our employees by targeting a maximum working day of 12 hours by the end of GD3 – We support this and recognise that it is a significant change (driven by HSE guidelines).

We will establish processes that allow us to safely and reliably blend more green gas into our network – We strongly support this and the recognition that this is about changes to their processes.

We will implement a framework to assess alternatives to natural gas when refurbishing or replacing supplies to high-rise multiple occupancy buildings – We strongly support this as helping contain costs and support the net zero transition in what seems an obvious priority area for heat decarbonisation.

We will introduce a measure for climate resilience and establish a standard baseline from which we will monitor our progress – We understand that this is cross GDN work driven by the Ofgem requirement and as such is only as to be expected.

We will meet or exceed the Enhanced Cyber Assessment Framework – As to be expected

5.2 Network safety and reliability - Areas for Ofgem to Explore

We set out below some of the questions we have raised as areas that Ofgem may wish to pursue further as part of its own assessment.

5.2.1/2 Emergency Response and Repair

Resourcing for peak workloads – we recognise and support the need for SGN to be able to deal with emergency calls during extreme winter peaks, in line with their licence obligation. However we have questioned whether Advanced Methane Detection could be expected to reduce these peaks (by dealing with repairs on a more proactive basis) or whether more could be done to triage calls to focus efforts on genuine emergencies (which the Plan notes that they "may" look at doing).

The move to 12-hour shifts – we fully support the need to adjust working patterns to address HSE fatigue requirements and to support SGN's commitment to improving employee safety. We have not been in a position to test their analysis of the costs but have questions around how this might result in overtime savings, the scope for some limited exceptions to deal with extreme events (which the Plan suggests only happen around once per price control), the scope to better use downtime for emergency staff etc. We have also challenged SGN around its engagement with staff and unions, as well as with other utilities, to help in identifying more cost-effective solutions or wider benefits.

Repair rates – we have been alerted to the rising level of repairs through our ongoing monitoring role (and the link to performance on unplanned interruptions). It makes sense to us that repairs will be increasing for T2/T3 mains which have been removed from the IMRRP and are now deteriorating – and we recognise that these will be more difficult / costly to repair. The cause of the rise in T1 repairs is less clear although the Bearing report SGN commissioned does identify both weather and "safety related events" as factors. Specifically, the data shows an increase in repairs following a safety incident, perhaps reflecting a shift in awareness / attitudes. We recognise the difficulties in comparing repair rates across GDNs but have not sought more generally to comment on issues around benchmarking / cost assessment.

4Rs - We support the 4Rs framework as a way of looking at the range of options available from short term repairs to long term replacements. Our sense is that SGN will tend to favour investment on the assumption their network will be there for decades to come. While we broadly support this approach, we would like to see a shift over time to a more nuanced approach that recognises that not all parts of the network will be needed on an enduring basis. Ultimately 4Rs might include

“remove” as a fifth option (as is now being explored with MOBs), once the legal obligations to provide supply are addressed.

5.2.5 Iron Mains Replacement

We understand and support the need for repex investment both to meet the explicit requirements of the IMRRP but also the broader requirements of the Pipeline Safety Regulations. In the latter case SGN have to form a judgment as to the level of risk involved but these are still “statutory” requirements (albeit ones that bring additional benefits in terms of reducing leakage and the risk of unplanned interruptions).

We have discussed at some length the issues with the increased complexity of Tier 1 repex projects in the final stages of the IMRRP. SGN have provided good evidence that this is driven in large part by policy changes and by a focus on delivering the maximum risk reduction. However, we are unclear, and SGN are been unable to fully explain, how far there were still choices that SGN made over time (eg in the interest of short-term cost reduction) which may have also influenced this. We expect this is an area that Ofgem will want to explore further, looking across the GDNs. We are also unclear what discussions, if any, have been had with the HSE around alternative ways of dealing with particularly costly final elements of the IMRRP.

5.2.6 Investing in network integrity

We have been taken through the high-level justifications for the proposals around LTS and governors which make sense. We have raised questions around the assumed level of reinforcement (with gas demand falling) but are content if there is a volume driver. We note the argument that falling connection numbers leaves a high “stranded” overhead cost but have questions around what other uses could be made of this resource and whether rising disconnection numbers could be expected to offset the effect.

5.2.7 MOBs

We have pressed SGN to bring together the thinking being done on MOBs from different perspectives (safety, unplanned interruptions and innovation around decarbonisation). With escalating costs for maintaining safety in these buildings it must make sense to look in parallel at options for removing gas from the buildings. Given that a quarter of SGN domestic customers live in MOBs (and over a third in Scotland) this merits attention and we strongly support SGN’s proposed innovation project provided that it is done in close collaboration with DNOs, local authorities and policy makers, as discussed at 6.2.1. In the meantime, we recognise the need for a more proactive approach to replacement of risers in these buildings and other actions to comply with recommendations from the Grenfell inquiry / HSE as set out in the Plan.

The use of a reopener to deal with Complex Distribution Systems makes sense given the early stage of SGN’s thinking on what is a distinct asset type that needs additional focus as these assets age.

5.3 Network ready to transport clean energy

Discussed as part of our comments on Chapter 6

5.4.1 Climate Resilience (inc Climate Resilience Strategy)

We recognise that this is an increasingly important risk that SGN needs to manage. There is broad customer and stakeholder support for investment in this area given the importance of maintaining a

reliable supply. The number of other reports that SGN have to produce in this space is further evidence of the saliency of this topic.

We are pleased with the way that SGN's thinking has developed over the past year with a recognition of the importance of some new risks relating to extreme temperatures, for example. We were also pleased to see them thinking about this from different angles including the potential impact of heat stress on their employees.

While it is possible to identify broad trends such the increase in washouts, as SGN make clear it is impossible to anticipate exactly where flooding will hit. We therefore support their request for a reopener for climate resilience to deal with the aftermath of particular incidents and to address any new risks that are identified.

We also support their request for funding to carry out a proactive programme of surveys of river crossings which would vary in the level of scrutiny depending on the length of the crossing.

We were also interested in the proposed long-term Asset Management Strategy described in the Climate Resilience Strategy. The idea that the approach to dealing with asset management risks should depend on the future energy scenario for that part of the network (a move to hydrogen or electrification / decommissioning) is a way of thinking that we would have liked to see pervade the Plan more generally.

5.4.2 Cyber Resilience

We have not considered this aspect of the Plan in any depth given the sensitivities involved. The broad approach including cultural as well as technical aspects makes sense. The costs are high but we recognise that this is an increasingly critical risk that needs to be managed.

Chapter 6 Infrastructure fit for a low-cost transition to net zero (inc Innovation Strategy and EAP)

Overview

We are pleased to see the way SGN's articulation of the challenges around net zero, biomethane, engagement with the RESP, decarbonisation of MOBs and network decommissioning / repurposing has developed over successive drafts of the Plan. The SGN team has clearly taken account of our feedback, amending the language they use and considering additional points of view.

A clearer long-term view is needed

However, because the Plan is focussed on the next five years and because the Innovation Strategy covers SGN's innovation activity more generally, the Future of Energy strands are not brought together into a longer-term plan of how SGN intend to respond to the decarbonisation agenda. That said, we appreciate the difficultly in doing so, given the uncertainty from Ofgem, Government and the wider energy sector. Instead, the Plan highlights the different strands of "no regrets" work SGN propose to support different scenarios.

We recognise that the Future of Energy work, including the thinking on how to decarbonise Scotland, together with the Asset Management Strategy described in the Climate Resilience Strategy, contain the seeds for the sort of long-term plan that is required looking out to 2050. The Minimum Viable Network project that SGN have been doing is also a good start but the current version simply looks at the impact of removing domestic customers from the network. SGN need to do more work on this, including obtaining the industry classification codes for all their I&C customers to identify

commercial sites that could more readily move away from gas. This analysis is important to help inform wider policy thinking on the future of the gas networks and should also shape SGN's long term asset management strategies for GD4 and beyond.

Across this part of the Plan, we welcome SGN's focus on understanding and responding to regional differences which has been a consistent theme for the ISG. The Business Plan and Innovation Strategy make reference to Scottish Government ambitions, and to the potential for the RESP to reflect regional differences in geography, demography and policy environments. We would stress to Ofgem the 2045 net zero target date in Scotland and that heat (but not energy) is a devolved matter as important factors to bear in mind when assessing SGN's proposals.

We would still like to see SGN growing their understanding of other options for heat decarbonisation, particularly heat networks which we expect to begin playing a more substantial role during GD3 (with Scotland somewhat ahead of England in its planning). This will be imperative for their proposed MOBs innovation and demonstration projects, but it will also be important in wider network planning and the future of energy thinking.

Customer and stakeholder support

This Chapter and the EAP reflects what we heard from consumers and stakeholders in terms of wanting to see more investment in low-carbon energy solutions (in particular biomethane). Probably reflecting the growing affordability challenge, there was less appetite for investment in improving environmental performance than in GD2 albeit that addressing methane leakage was seen as a priority given the safety, environmental and cost benefits.

Overall, this desire for more investment has to be balanced with the fact that many of those in fuel poverty would view any bill increase as unacceptable (as set out elsewhere in the Plan). We are satisfied that SGN has set a reasonable balance in the Plan it puts forward and are supportive of their proposals for additional innovation funding and the specific projects they propose.

We are aware that the approach to heat decarbonisation remains a contentious issue across industry. We are happy that the materials presented to customers and stakeholders around the different options was balanced and that customers were not led but had a clear preference for options, like biomethane, that involved least change within the home. At the stakeholder events we are aware that, perhaps inevitably, those who gave their time were typically more pro-gas and there were no strong pro-heat pump voices, for example. That said most members of the ISG are well plugged into wider industry debates and able to provide challenge to SGN from that perspective. Overall though we remain strongly supportive of an increased role for biomethane and for keeping options open around hydrogen (in particular for industrial and commercial customers) and hydrogen blending – all of which we see as broadly aligned with current Government thinking.

6.1 Commitments

We will contribute to the development of the Regional Energy Strategic Plans (RESPs) and relevant local authority energy plans in Scotland and the south of England – Important but only as to be expected and lacking detail in terms of what this might involve. We had flagged the need to include local authority energy plans (as well as the RESPs) and are pleased these are now referenced.

We will work collaboratively to maximise biomethane injection and reduce connection times for producers to provide the capacity to transport it to the equivalent of one million homes – We strongly support this ambitious commitment which recognises the steps that SGN can take to drive biomethane uptake. We comment below on the specific metric used.

We will transport locally produced biomethane to Wick and Thurso SIUs to replace liquified natural gas supplies – We strongly support this ambitious commitment which we recognise is dependent on Ofgem funding through both the GD3 Business Plan itself and reopeners during the GD3 period. This has been a long-standing area of interest for the ISG.

We will complete the evidence for hydrogen blending in the first two years of GD3 – We strongly support this important preparatory work to facilitate the likely UK policy direction and also to enable the system to accommodate imported gas from the EU.

We will reduce our operational carbon footprint by 46% compared with our 2019 baseline with a focus on reducing methane emissions – We strongly support this commitment which puts SGN on a trajectory that is in line with science-based targets and with a focus on methane leakage reduction which is strongly supported by customers and stakeholders. We recognise that this represents a stretch for SGN

6.2.1 Innovation to meet Net Zero (and SGN's Innovation Strategy)

The Innovation Strategy looks at how innovation can support Today's Network (covered in Chapter 5) as well as the Future Network and the Transition.

Under the Future Network theme there is a strong emphasis on increasing use of biomethane and preparing for hydrogen blending (both of which we strongly support as discussed at 6.3-6.5 below).

Under the Transition theme, innovation work is proposed around decommissioning / repurposing

Decommissioning / Repurposing: We were pleased to see an explicit reference to investigating the costs of network decommissioning in both the main Business Plan and Innovation Strategy. It is important that this work is not just about being able to provide a more robust view of these costs but also looking at how they might be reduced given the potentially huge sums involved (as flagged in the report commissioned by the NIC[4]). We also support the focus on repurposing where possible (and economically justified) and are pleased that SGN propose looking at more innovative options for repurposing beyond green gas. We are keen that SGN continue to develop their thinking on this area and will be keen to engage with them on it through GD3.

MOBs: As noted above, we have encouraged SGN to bring together their thinking on MOBs which were previously being looked at separately from an asset management, unplanned interruptions and net zero perspective. This is an important area given that a quarter of SGN customers live in MOBs (rising to a third in Scotland) and given the challenges with safely maintaining supply. There are references to both UK and Scottish Government concerns over the lack of detailed assessments being carried out on how to decarbonise these buildings, which reinforces the need for this work. We are aware that UKPN's Heat Riser SIF project started to explore similar questions but ultimately was not funded as it was not seen as the network's role. We see the need for SGN to explore alternatives to costly repex riser work as a justification for SGN carrying out work in this area.

The Innovation Strategy includes £6m NIA funding for the development of a framework for assessment of the transition of MOBs to alternative low carbon solutions but with limited detail as to what the money will be spent on. As noted above, while we strongly support this project, we see it as vital that it is undertaken in collaboration with DNOs, local authorities and district heat providers if it is to deliver a whole system solution and for the findings to have credibility. There are practical

[4] https://nic.org.uk/studies-reports/national-infrastructure-assessment/second-nia/arup-gas-network-analysis/

challenges with retrofit of both district heat and electric heat which those parties are best placed to explore. There are also important policy questions around the duty to supply gas which we had encouraged SGN to raise and which are now included in the proposed project scope. We would also encourage collaboration with other GDNs on this and in particular in London where there needs to be agreement on processes between Cadent and SGN (who cover North/ South of the river respectively).

Funding sources

While we are supportive of all the areas in SGN's Innovation Strategy, we note the reliance on NZASP reopeners in the Innovation Strategy, which includes three projects (Hydrogen blending operational readiness, Edinburgh hydrogen blending, and MOB decarbonisation roll out) which potentially add an additional £55 million of spending on top of the £51m asked for in the core Business Plan. These projects are at a much earlier stage of development and hence the use of reopeners makes sense and allows for fuller scrutiny in due course.

There are also some elements of the core £51m innovation funding request which lack detail. Given SGN seem to be seeking a much larger NIA / NZARD UIOLI pot than Ofgem envisaged in the SSMD we would expect Ofgem will scrutinise these proposals carefully.

While we support increased expenditure in this area to support the transition to net zero it remains important that there is suitable governance around that funding, including to ensure cross sector (and where appropriate cross vector) collaboration and wider knowledge sharing.

We have challenged SGN around the lack of a clear vision of how SIF funding might play in and understand that the availability of such funding depends on the Challenges that Ofgem sets. We would encourage Ofgem to look across the GDN Plans to consider whether there are any areas that would be suitable as SIF Challenges (as an alternative funding route with more established governance and requirements for collaboration).

6.2.2 Understanding Customer Needs

I&C customers: We welcome the increased references and focus on I&C customers which was one of our areas of early challenge. We are pleased to see the inclusion of a specific resource for I&C engagement referenced in the Innovation Strategy.

6.2.3 Working with the RESP

It is positive that our challenge to prioritise engagement with the RESPs and Local Authorities have been listened to and reflected here, although in our view the Plan still lacks clarity and ambition in this area. We recognise that the role of the networks is to respond to what Government (national, devolved and local) want, supporting them in making good decisions and working collaboratively to make sure the right infrastructure is in place. The final Business Plan positions SGN's role appropriately as participating and supporting others in the development of RESPs, LAEPS etc. as well as identifying opportunities for SGN to take on a leadership role. However, we would have hoped that SGN could be more proactive in developing a blueprint for how this might work in practice, building on the LHEES examples in Scotland (and the small-scale project undertaken with SSEN in Dundee). In the South the Greater London Authority (GLA) are active in looking at net zero pathways for London, which we would like to see SGN more closely engaged in.

We also note the English Devolution White Paper[5] (published after the Plan was submitted) proposes to "give Mayors strong new powers over housing, planning, transport and energy". As these proposals progress we will want to explore with SGN the implications that they could have over the GD3 period.

We understand that in the near term NESO's focus will be on ED3 and Clean Power 2030. However, the intention is for the Regional Forum meetings to be established by May this year[6]. This should force SGN to start to focus on how they will need to contribute and we will be interested to hear feedback in the lead up to GD3.

We would anticipate that automated data sharing will be a future requirement from the RESP and potentially for local authorities too. As we note in our comments on Chapter 7 we are concerned that SGN currently has a limited understanding of its "data customers" and what data they use. We have previously suggested that SGN look at the DFES produced by the DNOs (and the LENZA tool that SSEN provide to give local authorities access to relevant information). This would give them a clearer view of the practical requirements that they could expect to have to meet in GD3 in their dealings with the RESPs and local authorities.

The lack of engagement with DNOs/ local authorities is highlighted above as one of the (few) areas of weakness in SGN's stakeholder engagement.

6.3 Biomethane (including relevant sections of the EAP)

We strongly support SGN's ambitions on biomethane and have confidence that they are planning appropriately for an increase in its use and to address any network barriers. This is reflected in the Commitment to provide biomethane capacity for the equivalent of 1 million homes and is also reflected in the Asset Management Strategy and the EAP.

We have recently been engaging with SGN around the precise meaning of the metric they use which is sometimes described as to "supply the equivalent of 1 million homes…" which the ISG had assumed referred to the amount of biomethane actually being injected into SGN's network. However, as is now clear from the wording of the Commitment, the ambition is around having the capacity to enable the equivalent of 1 million homes to be served, together with a stated intention to ensure that an appropriate metric is developed based on "actual energy delivered to the network not potential" (section 6.3). We see this as important both to present an honest picture of the level of biomethane on the system (and hence the impact on net zero) but also because a number of SGN's initiatives that we welcome are aimed at increasing injection rates, not simply capacity connected. It is important that Ofgem is aware of this distinction as it looks across the Business Plans and demands a shift to reporting on both actual injection levels and capacity.

We recognise that actual injection levels will be driven in part by factors outside SGN's control such as the longer-term future of the Green Gas Levy and the outcome of the consultation on the 'Future policy framework for biomethane production'. However, we still consider a Commitment in this area to be important in signalling SGN's readiness to handle a significant increase.

As noted above, there is strong support for biomethane in the consumer research as it is seen as a green gas solution that is available now, provides the same heat experience and involves no customer disruption. The EAP notes concerns from some stakeholders that biomethane is a stop gap,

[5] https://www.gov.uk/government/publications/english-devolution-white-paper-power-and-partnership-foundations-for-growth/english-devolution-white-paper

[6] See NESO Final BP3 (p30)

and around scalability given feedstock availability / price. However, we see strong policy support for biomethane to play a role in delivering net zero[7] and enhancing gas security of supply. Moreover, SGN have put a strong focus on Scotland where the more rural economy presents particular opportunities.

Our support is also based on the significant impact that this could have on GB emissions (EAP para 28 – 2.1 m tCO2e annually from 2031). As such this is far more material than anything they might do in terms of their own BCF as currently defined[8].

We are pleased that the specific actions that SGN are proposing for GD3 are driven by feedback from the biomethane producers at a targeted workshop (eg a simpler standardised approach to connections, reduced requirements for propane blending, funding for reinforcement, and resolution of technical issues around flow rates) with the creation of dedicated teams in Scotland and the South. Going beyond this we support the proactive approach that looks to allow biomethane to be prioritised over natural gas and to establish security of supply standards for biomethane.

As such we see this as an area that is well thought through in terms of actions that SGN can take and is well supported by its engagement and we therefore strongly support the related requests for funding.

In particular, while we have not reviewed the EJP we would support NZARD funding for Improved Biomethane Access Rollout as it builds on the successful rollout to initial sites in GD2, reducing propanation (which otherwise unhelpfully increases emissions) and increasing biomethane injection rates.

6.4 SIUs (including the SIU Strategy)

The ISG has consistently supported and encouraged SGN's ambition to decarbonise the SIUs by replacing LNG sourced from Qatar (transported through the Isle of Grain and onwards by road to the four mainland SIUs) with Biomethane-CNG (Bio-CNG) sourced locally. This has significant consumer/ community benefits including significant emissions reductions from road transport; CO2 reduction from switching from LNG to Bio-CNG; improved security of supply and can be achieved without disruption/ conversion of customers' appliances. It is good to see that the ISG's support for taking positive action to decarbonise the SIUs has been listened to and that many of the comments we have made have been acted upon.

The supporting SIU Strategy clearly articulates the future risks of continuing to source LNG from the Isle of Grain given the uncertain future of the facility and the risks of shipping LNG from the continent with significant additional cost, world price volatility and challenging logistical problems.

The Plan proposes the decarbonisation of two SIUs (Wick and Thurso) in GD3 along with innovation funding for planning work associated with the other three SIUs.

The proposal to switch Wick and Thurso to Bio-CNG in GD3, entails an expected capex cost of £15.8M which SGN propose be covered by a NZASP reopener. We recognise that this proposal is still being developed and further work on definitive costing is required. We recognise that the capex funding is

[7] https://blog.anaerobic-digestion.com/biomethane-energy-transition-uk-government/

[8] This could change. In particular we note from the TCFD in SGN's Annual Report that "Scope 3 is likely to be part of a future SBTi methodology, including emissions from our customers burning the gas that we distribute".

significant and will be paid for by Scottish customers while the opex savings will benefit all GB gas customers[9]. Nonetheless we consider that this should be justifiable at a GB level.

It is noted that SGN have estimated CO2 saving for Wick and Thurso of 10.95kT /year and we would have expected a proper valuation of the carbon benefits to assist the challenging economic case for implementation.

As the project progresses we believe that there would be benefits from undertaking local community engagement in Wick and Thurso building on the success of the H100 Fife community outreach programme.

We believe that more research and community involvement is required to determine the optimum decarbonisation solution for Stornaway (in the Hebrides). There are whole energy system options involving renewable generation that merit detailed assessment. The lack of supplier competition in Stornaway SIU is an additional complexity.

6.5 Blended Hydrogen

We support the Commitment to complete the evidence base for hydrogen blending within the first two years of GD3 but note that the associated Outcome and two elements of the innovation strategy go beyond evidence building to "being ready" to accept blended hydrogen in GD3. Delivery of these aspects of the Plan are dependent on a final decision from Government on blending and will require significantly greater stakeholder engagement. We are aware that in the SSMD Ofgem was reticent about funding innovation in this area but we share SGN's view that this preparatory work is vital and "no regrets" given the prospect of blended hydrogen from the EU and the minded to position from Government. Specifically, we support SGN's request to use NIA and totex funding for blending activities (as well as CNIA and NZARD). However, it is not clear to us exactly which activities each funding pot would cover and we would suggest Ofgem seeks clarity.

On the proposed NZASP reopener for the Edinburgh blending project, building on LTS Futures, we are not clear whether SGN has yet engaged with the planning team at Edinburgh Council. We do know that Granton is going to be one of the first new sites for district heating in the area. As part of the evidence in support of a future reopener we would expect SGN to undertake proper local stakeholder engagement. However, we appreciate that the innovation strategy is only laying out a high-level sketch of the proposed project at this stage which would be developed in more detail when an NZASP proposal is developed.

We have not discussed the Hydrogen Blending Operational Readiness NZASP proposal with SGN but understand this to be more about investment in assets and processes, to ensure they are ready for blending. Further detail will need to be provided as part of any reopener.

We note the suggestion (in the EAP section on methane leakage) that blending hydrogen will reduce shrinkage emissions. We have not seen the evidence that SGN are relying on for this, noting that hydrogen does have a GHG effect and that the smaller molecules may leak more easily. We would hope this might be explored as part of innovation work preparing for hydrogen blending.

6.6.1 Reducing Methane Leakage (including relevant sections of the EAP)

We are pleased with the focus that is being given to reducing methane leakage which is strongly supported by consumers and stakeholders and given it accounts for 94% of SGN's BCF. As a short-

[9] As opex costs are included in National Gas's allowed revenues through SGN/National Gas Transmission Special Licence Conditions

lived greenhouse gas, reducing methane emissions can help avoid climate tipping points and near-term action is important. While much of SGN's proposed reduction in methane leakage is the result of the safety driven repex programme, we are very supportive of the innovation work that SGN has been doing and is now looking to roll out which will help further reduce emissions.

We have not reviewed the EJPs/CBAs for the specific investments in this area that are referenced in the EAP but, subject to Ofgem reviewing the detailed cost assumptions, we would strongly support these projects:

- **Advanced Methane Detection**: using adapted vehicles to detect leaks will allow leaks to be detected earlier and will allow repex work to be focussed on the leakiest pipes first. We see real merit in this but are unclear how this impacts SGN's expected repair volumes and whether there is a benefit in SGN being able to do this on a more managed basis. We recognise that there have been practical operational (and potentially regulatory) issues that needed to be resolved but are disappointed at the cautious approach from SGN in progressing this technology which means that (according to the EJP) the first surveys will not be carried out until Q1 2027. We have discussed with SGN the potential to accelerate this and will monitor progress over the coming year. We have been discussing AMD for some time with SGN and have been strong supporters of the idea that better monitoring will enable better management of leakage and hence are keen that it is moved forward quickly. We are pleased that there is now a clear commitment to implement this, subject to Ofgem funding, and hope that Ofgem will reinforce the need for pace (across the industry).
- **Digital Platform for Leakage Analytics (DPLA):** Again, we have been strong supporters of this project which looks to use a wide range of sensors (coupled with AI/ML) to detect leakage at a wide range of below and above ground installations. We have noted before that AGIs (above ground installations) in particular are a neglected asset class in relation to leakage, despite accounting for 18% of leakage[10] (but at essentially a fixed rate in the Shrinkage and Leakage Model). We are disappointed that there has not been sufficient progress on the SIF project to allow a more concrete proposal to be put forward. Given the high expected cost (c £50m), we will want to ensure that SGN is focussed on those components of the DPLA solution which add the greatest value, phasing in early wins. We hope that Ofgem will steer the GDNs towards that as a common approach in its guidance around the expected reopener. We see AMD as an example of that approach in practice.
- **Remote Pressure Management** (maintenance of existing equipment and new installations) – supported given the benefits have been demonstrated through GD2 with pressure being a known driver of leakage.
- **Intelligent Gas Grid** – This is still ongoing as a SIF project and we have not yet discussed it in any detail but support its inclusion as a reopener when the case can be properly examined. We note that it is also expected to help with biomethane injection which would be welcome.

On Advanced Methane Detection we are aware that the methane savings will not be reflected in the formal (but out-dated) Shrinkage and Leakage model – but are pleased that SGN propose to report leakage on both the modelled and actual basis. We hope that Ofgem will take account of this in how it evolves environmental reporting for all GDNs (as proposed in relation to DPLA in the Business Plan Guidance para 4.58).

[10] Source SGN Annual Environmental Report 23/24 (Appendix)

6.6.2 Other EAP Driven Initiatives

We are pleased to see the continuing commitment to reducing emissions in line with science-based targets with a commitment to reduce emissions (including shrinkage) by 46% compared to 2019 by the end of GD3. We are aware that the SBTi is still intending to produce guidance for gas networks which would allow them to be accredited but may require changes to the methodology. We would encourage Ofgem to watch for any developments in this space.

On the property and EV investments we have asked (but not had confirmed) whether the costs are net of the savings which we would expect such investments to deliver.

We understand the reasons for the limited progress that SGN have made on their **fleet** in GD2 (linked to availability of suitable heavier duty vehicles and charging infrastructure for front line workers) but note that Cadent appear to have performed better. We will continue to press SGN to learn lessons from Cadent's experience. In the meantime, we support the focus on other actions such as earlier replacement of vehicles and driver behaviour, alongside ongoing engagement with vehicle manufacturers in what is an evolving landscape.

On **biodiversity** we are aware that this was seen as a lower priority by customers and general stakeholders (including compared to GD2). However, SGN's expert Environmental Advisory Panel stressed how the nature crisis is rising up the agenda and encouraged SGN to look at particular regional challenges and opportunities. As an ISG we pressed SGN to be clear about what their "biodiversity net gain" (BNG) target meant in practice. This is now clearer although we are still unsure if SGN's plan is to re-survey all the sites it has surveyed to date, which it would need to do if it is to have a proper measure of the BNG. We will continue to press them on this point. However, overall, we see a genuine commitment to the work SGN do in this space, as reflected for example in the recent awards they have won.

We note the goal of **zero waste to landfill** by 2035 and the goal of a 5% reduction in GD3, which feels unambitious. We are aware that SGN has made little to no progress in reducing waste to landfill over the GD2 period. The ISG has not explored this but SGN's EAP has and encouraged SGN to do more to reduce overall waste levels and also to draw on learning from the water sector, for example, on circular economy. We hope that Ofgem will look across GDNs and highlight if SGN appear less ambitious in this space than others.

As a positive point, we note the recognition that 9% of PE pipe goes to waste and that addressing this waste will also help reduce costs – which may help in gaining internal traction.

We note the suggestion that a clean power grid diminishes the value of installing **solar and batteries** (ie SGN could just rely on the grid decarbonising to reduce its emissions). We are pleased they have not adopted this approach as in our view GB is reliant on local actions like these to actually deliver its clean power ambitions.

On **embodied carbon** it is good to see reference to learning from the water sector and also TfL (which Ofgem might usefully encourage more widely on environmental matters).

Overall, paragraph 36 of the EAP says SGN are confident the work they are proposing in the EAP is fully supported by the ISG. While in broad terms this is correct there are a number of points highlighted above where we would have liked to see more ambition (or more clarity) and which we will continue to discuss with them going forward.

Chapter 7 System efficiency and long-term value for money

Overall

We know that affordability is a major concern for customers and hence welcome the steps that SGN are taking to improve system efficiency and long-term value for money.

7.1 Commitments

We will be ranked in the top three for efficiency for both our networks in a well-calibrated cost assessment that reflects the efficient costs of working in our network areas – We support the ambition but are concerned that the caveat around a "well calibrated model" is not something we can objectively judge if SGN disagree with Ofgem's approach.

We will deliver more than £89m of operational savings through core innovation across GD3 – We support the ambition but are unclear about the basis for measuring savings

We will open our data to facilitate collaborative planning and the development of whole-system solutions – Welcome but largely just reflects Ofgem guidance

We will increasingly reflect the communities that we serve - We see this as an important commitment and will want to continue to engage with SGN on the steps they are taking and the progress made.

We will recruit and train more than 50 apprentices each year – We support SGN's commitment to building a future workforce through the apprentice route

7.2 Delivering value to customers through efficient investment

We recognise that SGN are looking to balance the different drivers around safety, customer and stakeholder views, investment options and affordability. In broad terms we believe they have struck a reasonable balance but welcome Ofgem testing this as it looks more widely across other elements of customer bill and at how other GDNs have struck that balance.

We have no view on the cost assessment issues that SGN are raising.

7.3 Innovation for efficiency (inc relevant sections of Innovation Strategy)

Our overall views on the Innovation Strategy are covered in our comments on Chapter 6. We note and welcome the use of some funding to support innovation on Today's Network including around safety, efficiency and waste reduction.

7.4 Digitalisation (inc relevant elements of the IT and Telecoms Strategy)

The Digitalisation Strategy is not a specific deliverable for the GD3 Business Plan and the latest version is from March 2024. Our comments therefore focus on the digitalisation elements in the Business Plan itself and the IT and Telecoms Strategy. We have not reviewed the underlying EJPs.

SGN have acted on our feedback by providing statements in the Business Plan on how investing in digital and opening up data sets will assist with achieving net zero. We also welcome the inclusion of references to AI and the utilisation of digital twins.

There is a helpful diagram summarising the Digitalisation Strategy (Figure7b) which is supplemented by a high-level description of the proposed Data and Digitalisation expenditure of £26.8m.

This is part of a much more significant totex ask (totalling £529m including cyber) set out in the IT and Telecoms Strategy. That Strategy makes clear that there is a high level of obsolescence across the SGN IT and Telecoms estate, alongside capability gaps. The Strategy sets out how the proposed spend resolves these issues as well as responding to emerging trends in the IT landscape, considering the full spectrum from the role of cloud services to the suitability of field devices and consolidation / integration of the proliferation of existing applications.

From our discussions with the CEO/ COO we are clear that they see this as being about modernising the business and crucial to improved efficiency and performance. This is important in giving us confidence that SGN will be looking to drive benefits from this investment, although the potential savings are not spelled out in the Plan and we are dependent on Ofgem to assess the value for money of the proposed expenditure.

The Strategy also discusses SGN's approach to Open Data and we welcome their intention to expand beyond the six open data sets currently available and to develop APIs to enable data consumers to automate data consumption. However, we are concerned that SGN do not yet have a clear sense of who their "data consumers" are or how others are using data (including the data that SGN already make available). There is a brief reference to them expecting the NESO to need data but despite our encouragement they have done little to engage with local authorities around their potential data needs or with DNOs to understand the data analytic tools that they are already making available to support local area energy planning. We will continue to press SGN around this point, to encourage them to be more proactive and to clarify what use they see being made of the data that is already available.

7.5 Workforce resilience (including relevant parts of the Workforce and Supply Chain Strategy)

Workforce resilience and especially diversity has been a major concern for the ISG dating from before GD2. We have seen some significant efforts during GD2 to address HR related challenges including a major apprenticeship programme and the introduction of support networks for women and minorities.

However, concerns remained as we entered GD3 planning as the company faces significant challenges including the need to shift to a new 12 hour working pattern, tough competition for new talent from other companies and industries, a high dependency on contractors (especially in Southern), and a continuing (though improved) lack of diversity.

The ISG were pleased to have early engagement with the HR team on GD3 planning, and be able to input our views on a wide range of workforce issues. The ISG welcomes this chapter of the Business Plan and the associated Strategy document, which addresses many of these specific issues. However, the ISG sees a role for itself in monitoring progress on these issues to reassure ourselves that the new approach is fully and genuinely embedded, and that the significant external challenges are being met with sufficient priority.

In particular we welcome the inclusion of:

- A clearer understanding of SGN people - diversity statistics are important and should be reviewed regularly
- A sharp focus on the recruitment challenge - the efforts to take bias out of the system should pay dividends The links with schools and colleges should help create a pipeline of recruits.
- The initiative to work with HM Prison service to offer roles to ex-offenders

- Increased attention on and a more pro-active approach to the supply chain with the introduction of New Engineering Contracts (NEC) to tackle increasing contractor costs and engineering complexities especially in the Southern area.
- Measures to enhance workforce flexibility including training apprentices to be multi-skilled.

We would have liked to see more in the Business Plan about:

- Organisational culture - This is only touched on briefly in the Strategy (in relation to EDI). A cross reference to the Vulnerability Strategy Commitment to train all frontline staff on identifying vulnerability would have been relevant and shown some joining up.
- Benchmarking against other DNOs and GDNs

Chapter 8 Managing risk and uncertainty

8.1.1 Proposed Uncertainty Mechanisms

We support SGN's approach to uncertainty in GD3 in terms of the proposed use of quite extensive uncertainty mechanisms. On particular mechanisms we have the following comments:

- **VCMA UIOLI**: We support the higher level of funding being requested by SGN as explained in our comments on chapter 4;
- **NZARD UIOLI**: As discussed in our comments on chapter 5, we strongly support most of the projects SGN are proposing to take forward here and the particular focus on biomethane and methane leakage. The projects are well worked up and the case for them has been made in principle with final costings still required, making a UIOLI an appropriate mechanism. We are aware that this represents a significant increase over the NZARD funding provided in GD2 but would note that in GD2 SGN also had specific PCDs that covered a number of these areas. The one project that we are unsure about for NZARD is Intelligent Gas Grids which we have had less visibility of and which may be better funded through an NZASP reopener if the SIF project proves successful.
- **Volume drivers**: We support SGN's proposed volume drivers. In particular we agree with not having a cap on the Tier 1 repex (to give flexibility for SGN to manage the tail end of the IMRRP into GD4). We also strongly support the use of a volume drivers on connections, reinforcement and disconnections given the very significant uncertainty in that area (but with a question around the baseline level that should be assumed for disconnections).
- **Reopeners**: We support the range of reopeners that SGN have included including a number where HSE are looking to tighten requirements, actions on resilience and also a number of important net zero innovation projects. As flagged earlier, we are strong supporters of the move to use biomethane in the SIUs, the work on MOBs, hydrogen blending and DPLA. However, given the stage that these projects are at, a (NZASP) reopener feels appropriate and will allow further scrutiny of the specific proposals.

8.1.2 Named projects

In terms of named projects we welcome the transparency SGN provides in listing these projects even where they fall below Ofgem's proposed PCD threshold.

In terms of approach to risk, as noted in our comments on chapter 6, we do have concerns about how the longer-term uncertainties around the future of the gas network play through into SGN's approach to asset investment. SGN have not justified their use of a 16-year payback for calculating

the NPV (and in SSMD Ofgem gave no guidance, saying they would take a decision at Draft Determination). For a project delivered late in GD3 a 16-year payback means the project would not payback until 2046 by which time we would expect some level of decommissioning to have taken place. We have not looked at the individual EJPs which may give a clearer picture of the payback profile and also additional evidence (as SGN have cited for the South London Medium Pressure mains project) as to where particular assets could be expected to have a longer life. From looking at the ratio of NPV to cost there is a wide range in terms of the relative value for money of these projects (and hence presumably also the payback period) which Ofgem will want to explore.

8.2 Incentives

We discuss SGN's approach to CSAT in our comments on chapter 4.

On **unplanned interruptions** we reviewed SGN's proposals as an ISG and recognise the real challenges they have in some cases in dealing with MOBs. We are pleased that Ofgem is splitting these out but have concerns around how a base level of performance is set for an incentive where there is such variation in the circumstances involved and small numbers of incidents. A minimum service standard of 23 days (for Scotland) is unlikely to be viewed as reasonable by customers but a markedly lower figure would leave SGN carrying too much risk. We discussed the fact that GSOP already provided a strong incentive in these cases and also what scope there was for Ofgem to provide exemptions in exceptional cases. The difficulties in this area is another reason for us pressing SGN to join up its thinking around MOBs more generally (including the challenges around decarbonising these buildings). We would encourage Ofgem to reflect on some of these wider issues in considering how to handle this particular incentive.

We support continuation of the collaborative streetworks incentive given this is an important issue for customers and the GLA.

Chapter 9 The cost of our plan

9.1 Costs

This section summarises the cost pressures that SGN is facing which we recognise, including the very different challenges they face across their two regions. We have noted in our comments on chapter 5 some of the questions we have raised around particular cost elements which we are reliant on Ofgem to scrutinise through their cost assessment work.

Disconnections - We note that SGN are assuming a cost of £1300 per disconnection. We had raised a question on this noting that their website shows lower figures (for consumer requested disconnections) in Scotland and outside the M25 – but equally we now note that Ofgem is citing an average of £1950 in its Call for Input on Disconnections. It is vital that Ofgem establishes a robust unit cost to be used in any volume driver. Although we have seen no data, our understanding is that most customers do not pay these costs directly and that they are socialised where SGN has to make the service safe under GSIUR, with a question mark around whether going forward the HSE will require additional work[11]. We note Ofgem's Call for Input which, in principle, should help to shed more light on this opaque area, to ensure the overall approach is in consumer interests and that costs are justified and being driven down over time. We hope that this work, which is seemingly

[11] Page 72 says that HSE does now require this while page 73 says "may" require.

being progressed completely independently of GD3, will be complete in time to inform Draft Determinations.

We note the crucial role that HSE decisions play in this area and would encourage both SGN and Ofgem to explore how, for example, allowing a longer period (eg 24/36 months) for GSIUR work – in particular if the scope is being extended to PE pipes which are lower risk – would give SGN an opportunity to programme this work more efficiently.

Overall efficiency – We had raised concerns with an initial lower efficiency assumption proposed by SGN and the increase to 0.5% pa is therefore welcome. However, we recognise this is an area that Ofgem will want to consider further, looking across all the Business Plans.

9.2 Bill Impact

As an ISG we have repeatedly stressed affordability as our key concern with successive drafts of the Plan, encouraging SGN to focus on the elements under their control. We are happy that this message has been heard and support SGN's approach to testing affordability / acceptability, including looking explicitly at the views of those in fuel poverty

We found the historical context helpful and in particular noted that the proposed bills would not be out of line with GD1.

Chapter 10 Financing our plan

While we have not engaged in any depth on the questions around accelerated depreciation (given financial matters are formally outside our scope), we do recognise that this issue has significant impacts for current and future consumers. We share SGN's concerns about the FES Holistic Transition pathway which drives Ofgem's proposals. However, as noted above, we think that SGN's own assumptions around the rate of migration understate the prospect for future change. We advised SGN that they did not need to specifically test the acceptability of accelerated depreciation as part of its consumer research as we saw this as best led by Ofgem. However, we welcomed SGN exploring how Ofgem's proposed changes might impact on the acceptability of SGN's proposed discretionary spend. We worked with them to help present what are complicated and difficult-to-explain potential changes to customers as clearly as possible. We urge Ofgem to consider carefully the affordability impacts (both short-run and long-run) as they make their decision.